

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Schoolcraft County Road Commission	County Schoolcraft
Audit Date 9/30/04	Opinion Date 12/2/04	Date Accountant Report Submitted to State: 2/7/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|------------------------------|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 901 Ludington St	City Escanaba	State MI	ZIP 49829
Accountant Signature 		Date 2/7/05	

SCHOOLCRAFT COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2004

SCHOOLCRAFT COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Bernard J. Lund
Vice – Chairman

Thomas J. Klarich
Chairman

Gregory L. Hase
Member

Albert L. Vail
Office Manager

Gregory M. Gaffney
Engineer/Manager

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Schoolcraft County Road Commission
P.O. Box 160
Manistique, MI 49854

We have audited the accompanying financial statements of the governmental activities and the governmental major fund of the Schoolcraft County Road Commission (a component unit of the County of Schoolcraft, Michigan) as of and for the year ended September 30, 2004, which collectively comprise the Road Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major governmental fund of the Schoolcraft County Road Commission as of September 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schoolcraft County Road Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments as of October 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2004 on our consideration of the Schoolcraft County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparison on page 29 and 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 2, 2004

Management's Discussion and Analysis

Using This Annual Report

The Schoolcraft County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns. Because this is the first year of reporting under GASB-34, comparative information is not presented in the management's discussion and analysis, but will be presented in future years.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net capital assets net of related debt increased approximately 13.6% from \$4,187,095 to \$4,754,834 for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased to \$1,594,660. The primary reason for the decrease was new construction and federal project funds. Declining interest rates and gasoline tax revenue negatively impacted net assets. The investment in capital assets category increased \$313,272.

It is important for the reader to realize that the increase in net assets is a result of the commission electing to report infrastructure assets (assets acquired during the year 2001 and beyond) and new construction of Road Commission facilities.

Net assets as of the year ended September 30, 2004 follows:

	<u>Governmental Activities</u>
Current and Other Assets	\$ 2,885,529
Capital Assets	<u>7,060,816</u>
Total Assets	<u>\$ 9,946,345</u>
Current Liabilities	1,177,902
Long-term Liabilities	<u>2,418,949</u>
Total Liabilities	<u>\$ 3,596,851</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	4,754,834
Restricted	<u>1,594,660</u>
Total Net Assets	<u>\$ 6,349,494</u>

A summary of changes in net assets for the year ended September 30, 2004 follows:

	<u>Governmental Activities</u>
Program Revenues	
Charges for Services	\$ 1,068,665
Operating Grants and Contributions	2,725,443
Other	5,070
General Revenues	
Interest Income	24,691
Gain on Disposal of Equipment	<u>225,814</u>
Total Revenues	<u>4,049,683</u>
Program Expenses	
Primary Roads	
Maintenance	933,966
Local Roads	
Maintenance	620,466
State Non Maintenance	69,058
State Trunkline Maintenance	888,347
Private Driveways	28,193
Infrastructure Depreciation	169,619
Land Improvement Depreciation	2,526
Interest Expense	108,595
Compensated Absences	18,221
City Projects Federal Aid	144,692
Equipment Expenses	360,845
Administrative	<u>164,039</u>
Total Expenses	<u>3,508,567</u>
Increase in Net Assets	<u>\$ 541,116</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2004, the fund balance of the general operations fund decreased \$8,614. Total revenues were \$4,049,683, an increase of \$231,037 as compared to last year. This change in revenues resulted primarily from federal projects and selling state aid for .75 cents on the dollar for primary road construction.

Total expenditures were \$4,058,297, a decrease of \$1,270,751 as compared to last year. This change in expenditures is primarily due to no new expenditures for capital outlay in new buildings in the current year.

Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2004 was higher than the original budget by \$933,601. This was due, in large part, to the Road Commission receiving money for federal aid projects for the purchase of new road construction. There was also an increase in state maintenance revenues because of an increase due to state maintenance. The actual revenue recognized during the current year was higher than the final amended budget by \$22,082. There were immaterial variances in all revenue items.

The final amended expenditure budget for the current year was \$693,480 higher than the original budget, primarily due to road construction's primary road construction. There was also an increase in local road construction and local road maintenance expenditures. The actual expenditures recognized during the current year were less than the final amended budget by \$40,183. There were no unfavorable variances in any expenditure line items.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2004, the road commission had \$7,060,816 invested in capital assets as follows:

Capital Assets Not Being Depreciated:	
Land and Improvements	\$ 97,084
Other Capital Assets:	
Land Improvements	561,709
Buildings and Improvements	3,450,151
Road Equipment	3,747,249
Other Equipment	175,406
Depletable Assets	69,508
Infrastructure and Improvements	<u>2,746,733</u>
Total Capital Assets at Historic Cost	<u>10,847,840</u>
Total Accumulated Depreciation	<u>(3,787,024)</u>
Total Net Capital Assets	<u>\$ 7,060,816</u>

Current year's major additions included the following:

Land and Improvements	\$ 196,310
Local Road Construction	681,910
Equipment	202,627

Debt

The road commission currently has a debt of \$2,652,439 for the year beginning October 1, 2004. Bonds on the building for \$1,900,000 will be paid off over a period of 25 years. The commission currently owes \$405,982 for equipment that will be paid off over the next five years. Compensated absences long term debt amounts to \$346,457.

Economic Factors and Next Year's Budget

The board of county road commissions considered many factors when setting the fiscal year 2004-2005 budget. One of the factors is the economy. The commission derives approximately 50% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds tax to be distributed. It is estimated that Motor Vehicle Highway funds will decline in the next fiscal year by 3% due to registrations on trailers and vehicles.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Schoolcraft County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Schoolcraft County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Schoolcraft County Road Commission administrative offices at Tannery Location, Manistique, Michigan 49854, (906) 341-5634.

Basic Financial Statements

Schoolcraft County Road Commission

Statement of Net Assets September 30, 2004

ASSETS

Cash and Equivalents	\$ 1,702,000
Accounts Receivable:	
Michigan Transportation Fund	314,638
State – Other	38,285
Due on County Road Agreements	545,432
Sundry Accounts	17,996
Inventories:	
Road Materials	123,395
Equipment, Parts and Materials	84,776
Prepaid Expenses	31,407
Unamortized Discount on Bonds	27,600
Capital Assets (Net of Accumulated Depreciation)	<u>7,060,816</u>
Total Assets	<u>\$ 9,946,345</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 22,539
Accrued Liabilities	65,836
Advances:	
State Trunkline Maintenance	361,340
Exchanged Federal Funds for State Funds	371,000
Private Driveway Plowing	15,152
Other	12,104
Deferred Revenue:	
EDF Forest Road	93,388
Other	3,053
Bonds Payable	50,000
Loans Payable	96,876
Compensated Absences	86,614
Noncurrent Liabilities:	
Bonds Payable	1,850,000
Loans Payable	309,106
Compensated Absences	<u>259,843</u>
Total Liabilities	<u>3,596,851</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	\$ 4,754,834
Restricted for County Road	<u>1,594,660</u>
Total Net Assets	<u>\$ 6,349,494</u>

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Statement of Activities For the Year Ended September 30, 2004

Program Expenses:	
Primary Road Maintenance	\$ 933,966
Local Road Maintenance	620,466
State Trunkline Maintenance	957,405
Private Driveway Plowing	28,193
Net Equipment Expense	360,845
Net Administrative Expense	164,039
City Project	144,692
Infrastructure Depreciation	169,619
Land Improvement Depreciation	2,526
Compensated Absences	18,221
Interest Expense	<u>108,595</u>
Total Program Expenses	<u>3,508,567</u>
Program Revenues:	
License and Permits	5,070
Federal Grants	288,770
State Grants	2,219,678
Contributions from Local Units	62,995
Charges for Services	1,068,665
.75 for County Road 448	<u>154,000</u>
Total Program Revenues	<u>3,799,178</u>
Net Program Revenues	<u>290,611</u>
General Revenue:	
Investment Earnings	24,691
Gain on Sale of Land	9,500
Gain on Equipment Disposal	<u>216,314</u>
Total General Revenues and Transfers In	<u>250,505</u>
Change in Net Assets	541,116
Net Assets:	
Beginning of Year	<u>5,808,378</u>
End of Year	<u><u>\$ 6,349,494</u></u>

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Balance Sheet
September 30, 2004

Governmental
Fund Type
General
Operating Fund

ASSETS

Cash and Equivalents	\$ 1,702,000
Accounts Receivable:	
Michigan Transportation Fund	314,638
State – Other	38,285
Due on County Road Agreements	545,432
Sundry Accounts	17,996
Inventories:	
Road Materials	123,395
Equipment, Parts, and Materials	84,776
Prepaid Expenses	31,407
Unamortized Discount on Bonds	<u>27,600</u>
Total Assets	<u>\$ 2,885,529</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 22,539
Accrued Liabilities	65,836
Advances:	
State Trunkline Maintenance	361,340
Exchanged Federal Funds for State Funds	371,000
Private Driveway Plowing	15,152
Other	12,104
Deferred Revenue:	
EDF Forest Road	93,388
Other	<u>3,053</u>
Total Liabilities	<u>944,412</u>
Fund Equities:	
Fund Balance:	
Reserved for Inventory	208,171
Reserved for Prepaid Expenses	31,407
Unreserved and Undesignated	<u>1,701,539</u>
Total Fund Equities	<u>1,941,117</u>
Total Liabilities and Fund Equities	<u>\$ 2,885,529</u>

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2004

Total Governmental Fund Balance	\$ 1,941,117
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,060,816
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,652,439)</u>
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Net Assets of Governmental Activities	<u>\$ 6,349,494</u>
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The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2004

	General Operating Fund
Revenues:	
License and Permits	\$ 5,070
Federal Sources	288,770
State Sources	2,219,678
Contributions from Local Units	216,995
Charges for Services	1,040,472
Interest and Rents	24,691
Other Revenue	<u>254,008</u>
Total Revenues	<u>4,049,683</u>
Expenditures:	
Public Works	4,088,327
Capital Outlay	(393,249)
Debt Service	<u>363,219</u>
Total Expenditures	<u>4,058,297</u>
Excess of Revenues Over (Under) Expenditures	(8,614)
Fund Balance – October 1, 2003	<u>1,949,731</u>
Fund Balance – September 30, 2004	<u><u>\$ 1,941,117</u></u>

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2004

Net Change in Fund Balance – Total Governmental Funds \$ (8,614)

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 319,775

Gain/(loss) on equipment retirement is not recorded in governmental funds, but is recorded in the statement of activities. (6,449)

Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. 236,404

Change in Net Assets of Governmental Activities \$ 541,116

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Schoolcraft County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Schoolcraft County Road Commission.

Effective October 1, 2003, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared using full accrual accounting for all of the Road Commission’s activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The Schoolcraft County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County’s approval and property tax levies are subject to County Board of Commissioners’ approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Schoolcraft County Road Commission, a discretely presented component unit of Schoolcraft County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, along with other revenues, which are designated for road and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Schoolcraft County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement, Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34 for phase 1 and 2 governmental units. The Schoolcraft County Road Commission is a phase 3 governmental unit, which allows for prospective reporting of infrastructure assets, and the Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets on a prospective basis for infrastructure assets purchased since 2002.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment & Vehicles	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year, and are permitted to accumulate up to a maximum of 2 years of vacation benefits.

Sick leave benefits are earned at the rate of 1 day for each calendar month in which the employee has worked at least 12 days and shall be accumulated up to 105 days. Upon reaching the maximum 105 days of sick leave, an additional 2 days per year will be granted for each year of agreement. Maximum sick days will be 111. Upon retirement or death, an employee, or his estate, shall be paid for 100% of accumulated sick leave. The total vacation and sick leave amount of \$346,457 is recorded in the statement of net assets as a liability.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (managing director) prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the Board. Also, the Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE 3 - CASH AND DEPOSITS

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Imprest Cash	\$ 2,000
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>1,700,000</u>
Total Cash	<u>\$ 1,702,000</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking)	<u>\$ 2,000</u>	<u>\$ 13,821</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The risk disclosures for the Road Commission deposits (in regards to the savings accounts), as required by GASB Statement No. 3, are not available in that the Road Commission's cash deposits are part of the County's common bank account. The Road Commission would receive its proportional share of insurance coverage.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Schoolcraft County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Schoolcraft County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Schoolcraft County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Schoolcraft County Road Commission for the current year was as follows:

	Beginning Balances 10/01/03	Additions	Adjustments/ Deductions	Ending Balances 09/30/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 97,084	\$ -	\$ -	\$ 97,084
Subtotal	97,084	-	-	97,084
Capital Assets Being Depreciated				
Land Improvements	365,399	196,310	-	561,709
Buildings and Improvements	3,450,151	-	-	3,450,151
Road Equipment	4,092,791	193,334	538,876	3,747,249
Shop Equipment	120,006	2,479	-	122,485
Office Equipment	34,443	5,742	4,129	36,056
Engineers' Equipment	18,115	1,072	2,322	16,865
Depletable Assets	69,508	-	-	69,508
Infrastructure	2,064,823	681,910	-	2,746,733
Subtotal	10,215,236	1,080,847	545,327	10,750,756

Schoolcraft County Road Commission

Notes to Financial Statements For the Year Ended September 30, 2004

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 10/01/03	Additions	Adjustments/ Deductions	Ending Balances 09/30/04
Less Accumulated Depreciation				
Land Improvements	842	2,526	-	3,368
Buildings and Improvements	411,753	76,106	-	487,859
Road Equipment	2,825,440	501,681	532,469	2,794,652
Shop Equipment	71,824	7,278	-	79,102
Office Equipment	18,736	3,238	4,053	17,921
Engineers' Equipment	15,884	1,124	2,322	14,686
Depletable Assets	22,403	-	-	22,403
Infrastructure	197,414	169,619	-	367,033
Subtotal	3,564,296	761,572	538,844	3,787,024
Net Capital Assets Being Depreciated	6,650,940	319,275	6,483	6,963,732
Total Net Capital Assets	\$ 6,748,024	\$ 319,275	\$ 6,483	\$ 7,060,816

Depreciation expense was charged to programs of the Schoolcraft County Road Commission as follows:

Primary Road	
Maintenance	\$ 266,683
Local Road	
Equipment	312,228
Administrative	10,516
Infrastructure	169,619
Land Improvement	2,526
Total Depreciation Expense	\$ 761,572

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT

Plan Description – The Schoolcraft County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employee's Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333 (a); MCLA 46.12 (a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Actuarial Accrued Liability – All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2003 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

GASB 25 INFORMATION (as of 12/31/2003)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 5,325,272
Terminated employees (vested former members) not yet Receiving benefits	-
Current employees –	
Accumulated employee contributions including allocated investment income	143,169
Employer financed	<u>3,047,045</u>
Total Actuarial Accrued Liability	\$ 8,515,486
Net Assets Available for Benefits at Actuarial Value (Market Value is \$5,610,784)	<u>6,144,712</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 2,370,774</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

GASB 27 INFORMATION (as of 12/31/2003)

Fiscal Year Beginning	January 1, 2005
Annual Required Contribution (ARC)	\$ 247,320
Amortization Factor Used – Underfunded Liabilities (32 years)	0.053632

Funding Policy – MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Annual Pension Costs – The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. The Road Commission was required to contribute \$218,565 for the year ended September 30, 2004. Payments were based on contribution calculations made by MERS.

<u>Annual Pension Cost</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual Pension Cost (APC)	\$ 155,994	\$ 135,250	\$ 176,935
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -
 <u>Aggregate Accrued Liabilities</u>			
Actuarial Value of Assets	\$ 6,125,397	\$ 6,019,534	\$ 6,144,712
Actuarial Accrued Liability	7,197,392	7,865,688	8,515,486
Unfunded AAL	(1,071,995)	(1,846,154)	(2,370,774)
Funded Ratio	85%	77%	72%
Covered Payroll	1,155,058	1,147,817	1,274,610
UAAL as a Percentage of Covered Payroll	93%	151%	186%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2004, the federal aid received and expended by the Road Commission was \$288,770 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

Changes in Long-Term Debt

	<u>10/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/04</u>
MTF Bonds Payable – 2002 Series	\$ 1,950,000	\$ -	\$ 50,000	\$ 1,900,000
Loans Payable:				
Wells Fargo 1999 Equipment	105,960	-	105,960	-
Wells Fargo 2003 Equipment	504,647	-	98,665	405,982
Compensated absences (1)	<u>328,236</u>	<u>18,221</u>	<u>-</u>	<u>346,457</u>
Total	<u>\$ 2,888,843</u>	<u>\$ 18,221</u>	<u>\$ 254,625</u>	<u>\$ 2,652,439</u>

(1) The change in compensated absences is shown as a net addition.

NOTE 9 - LONG-TERM DEBT (Continued)

In July 2002, the County of Schoolcraft approved a Schoolcraft County Road Commission Michigan Transportation Fund Bond Issue for the purpose of constructing Road Commission buildings. The issue was for \$2,000,000 and requires annual principal payments each August 1st and semi-annual interest payments each February 1st and August 1st and has a variable interest rate ranging from 2% to 4.85%. The annual debt service requirements are as follows:

Bonds Payable:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 50,000	\$ 82,484	\$ 132,484
2006	50,000	81,384	131,384
2007	55,000	80,110	135,110
2008	55,000	78,542	133,542
2009	55,000	76,810	131,810
2010-2014	320,000	351,860	671,860
2015-2019	405,000	279,958	684,958
2020-2024	525,000	176,194	701,194
2025-2027	<u>385,000</u>	<u>32,625</u>	<u>417,625</u>
Total Bonds Payable	<u>\$ 1,900,000</u>	<u>\$ 1,239,967</u>	<u>\$ 3,139,967</u>

In 1999, the Schoolcraft County Board of Commissioners entered into an installment loan agreement to finance the purchase of various items of road equipment. The note had an original principal amount \$582,159 and had an interest rate of 4.83%. During the year ended September 30, 2004 this note was paid in full.

In 2003, the Road Commission financed the purchase of road equipment in the amount of \$504,647. The note calls for five annual payments of \$112,316 on each June 30,th bears an interest rate of 3.95% and is secured by the equipment. The annual principal and interest requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 95,907	\$ 16,409	\$ 112,316
2006	99,765	12,551	112,316
2007	103,778	8,538	112,316
2008	<u>106,532</u>	<u>5,784</u>	<u>112,316</u>
Total	<u>\$ 405,982</u>	<u>\$ 43,282</u>	<u>\$ 449,264</u>

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2003, the Road Commission implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management's Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2004, however, management is unaware of any such claims.

Risk Management – The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and boiler and machinery coverage. They participate in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductions amounts.

NOTE 12 - POST-EMPLOYMENT BENEFITS

The Road Commission provides post-employment health care benefits in accordance with the labor contract and personnel policy as follows:

Effective January 1, 2000, upon retirement or disability retirement, from age 55 to 65 each employee will receive single subscriber health insurance benefits at a cost of 100% paid by the Road Commission. In order to be eligible between the ages of 55 to 65, the retiree must have worked a minimum of 15 years with the Road Commission. After age 60, years of service is not an eligibility requirement. At age 65 or older, the Road Commission will only pay \$50 towards retirees' supplemental insurance. There were 5 employees that qualified during the year ended September 30, 2004. The total cost was \$107,554 and the amount reimbursed by retirees was \$62,282 with a net cost to the Road Commission of \$45,272. The expenditures are recognized as the insurance premiums become due.

Supplementary Information

Schoolcraft County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,000	\$ 5,000	\$ 5,070	\$ 70
Federal Sources	175,000	290,000	288,770	(1,230)
State Sources				
Michigan Transportation Fund				
Engineering	-	10,000	10,000	-
Snow Removal	-	120,000	121,955	1,955
Allocation	1,800,000	1,830,000	1,857,530	27,530
Economic Development Fund				
Forest Road	200,000	170,000	158,000	(12,000)
Rural Primary	45,000	75,000	72,193	(2,807)
Contributions from Local Units				
Townships	90,000	63,000	62,995	(5)
Other	-	160,000	154,000	(6,000)
Charges for Services				
Trunkline Maintenance	613,000	970,000	970,852	852
Trunkline Non-Maintenance	80,000	70,000	69,058	(942)
Salvage Sales	1,000	1,000	562	(438)
Interest and Rents	20,000	25,000	24,691	(309)
Other Revenue				
Driveway Plowing	25,000	28,000	28,193	193
Other	20,000	601	501	(100)
Gain on Equipment Disposal	20,000	210,000	225,313	15,313
Total Operating Revenue	<u>\$ 3,094,000</u>	<u>\$ 4,027,601</u>	<u>\$ 4,049,683</u>	<u>\$ 22,082</u>

Schoolcraft County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 310,000	\$ 620,000	\$ 618,798	\$ 1,202
Maintenance	620,000	934,000	933,966	34
Local Road				
Heavy Maintenance	120,000	260,000	259,921	79
Maintenance	450,000	621,000	620,466	534
State Trunkline Maintenance	693,000	961,000	957,405	3,595
Equipment Expense – Net	200,000	365,480	360,845	4,635
Administrative Expense – Net	168,000	166,500	164,039	2,461
Capital Outlay – Net	(250,000)	(391,500)	(393,249)	1,749
Distributive Expense – Net	680,000	-	-	-
Other	25,000	173,000	172,887	113
Debt Service				
Principal and Interest	<u>389,000</u>	<u>389,000</u>	<u>363,219</u>	<u>25,781</u>
Total Expenditures	3,405,000	4,098,480	<u>\$ 4,058,297</u>	<u>\$ 40,183</u>
Fund Balance – October 1, 2003	<u>1,949,731</u>	<u>1,949,731</u>		
Total Budget	<u>\$ 5,354,731</u>	<u>\$ 6,048,211</u>		

Schoolcraft County Road Commission

Analysis of Changes in Fund Balances For the Year Ended September 30, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 2,123,798	\$ 620,628	\$ 1,305,257	\$ 4,049,683
Total Expenditures	<u>1,818,251</u>	<u>1,036,196</u>	<u>1,203,850</u>	<u>4,058,297</u>
Excess of Revenues Over (Under) Expenditures	305,546	(415,567)	101,407	(8,614)
Other Financing Sources (Uses)				
Optional Transfers In (Out)	<u>(200,000)</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	105,546	(215,567)	101,407	(8,614)
Fund Balance – October 1, 2003	<u>1,136,908</u>	<u>328,434</u>	<u>484,389</u>	<u>1,949,731</u>
Fund Balance – September 30, 2004	<u>\$ 1,242,454</u>	<u>\$ 112,867</u>	<u>\$ 585,796</u>	<u>\$ 1,941,117</u>

Schoolcraft County Road Commission

Analysis of Revenues For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 5,070	\$ 5,070
Federal Sources	288,770	-	-	288,770
State Sources				
Michigan Transportation Fund				
Engineering	7,656	2,344	-	10,000
Snow Removal	-	121,955	-	121,955
Allocation	1,428,339	429,191	-	1,857,530
Economic Development Fund				
Forest Road	158,000	-	-	158,000
Rural Primary	72,193	-	-	72,193
Contributions from Local Units				
Townships	-	62,995	-	62,995
Other	154,000	-	-	154,000
Charges for Services				
Trunkline Maintenance	-	-	970,852	970,852
Trunkline Non-Maintenance	-	-	69,058	69,058
Salvage Sales	-	-	562	562
Interest and Rents	14,339	4,143	6,209	24,691
Other Revenue				
Driveway Plowing	-	-	28,193	28,193
Other	501	-	-	501
Gain on Equipment Disposal	-	-	225,313	225,313
Total Revenue	<u>\$ 2,123,798</u>	<u>\$ 620,628</u>	<u>\$ 1,305,257</u>	<u>\$ 4,049,683</u>

Schoolcraft County Road Commission

Analysis of Expenditures For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 618,798	\$ -	\$ -	\$ 618,798
Maintenance	933,966	-	-	933,966
Local Road				
Heavy Maintenance	-	259,921	-	259,921
Maintenance	-	620,466	-	620,466
State Trunkline Maintenance	-	-	957,405	957,405
Equipment Expense – Net	148,199	96,454	116,192	360,845
Administrative Expense – Net	104,685	59,355	-	164,040
Capital Outlay – Net	(266,683)	-	(126,566)	(393,249)
Other	144,692	-	28,193	172,885
Debt Service				
Debt Principal Payments	50,000	-	204,625	254,625
Interest Expense	84,594	-	24,001	108,595
Total Expenditures	<u>\$ 1,818,251</u>	<u>\$ 1,036,196</u>	<u>\$ 1,203,850</u>	<u>\$ 4,058,297</u>

Compliance Reports



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners
Schoolcraft County Road Commission
P.O. Box 160
Manistique, MI 49854

We have audited the basic financial statements of the Schoolcraft County Road Commission as of and for the year ended September 30, 2004, and have issued our report thereon dated December 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Schoolcraft County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Schoolcraft County Road Commission in a separate letter dated December 2, 2004.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.L.C.
Anderson, Tackman & Company, PLC
Certified Public Accountants

December 2, 2004

SCHOOLCRAFT COUNTY ROAD COMMISSION

REPORT TO MANAGEMENT

Year Ended September 30, 2004



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
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Kevin C. Pascoe, CPA
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Christina A. Smigowski, CPA

REPORT TO MANAGEMENT

To the Board of County Road Commissioners
Schoolcraft County Road Commission
Manistique, MI 49854

Audit Committee Communications

We have audited the financial statements of the Schoolcraft County Road Commission, Michigan for the year ended September 30, 2004, and have issued our reports thereon dated December 2, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 28, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Schoolcraft County Road Commission, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Schoolcraft County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Schoolcraft County Road Commission, Michigan are described in Note A of the financial statements. In the current year the Road Commission adopted GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis*, which changes the way the Road Commission presents its financial statements. We noted no transactions entered into by the Schoolcraft County Road Commission, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: the useful lives of fixed assets.

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Schoolcraft County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, none of the adjustments we proposed, whether recorded or unrecorded by the Schoolcraft County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Schoolcraft County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Schoolcraft County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of the Schoolcraft County Road Commission, Michigan for the year ended September 30, 2004, we considered the Road Commission's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

To the Board of County Road Commissioners
Schoolcraft County Road Commission
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However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated December 2, 2004, on the financial statements of the Schoolcraft County Road Commission, Michigan.

We have already discussed many of these comments and recommendations with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the used of County Road Commission and management of the Schoolcraft County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.L.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 2, 2004

SCHOOLCRAFT COUNTY ROAD COMMISSION, MICHIGAN

COMMENTS AND RECOMMENDATIONS

September 30, 2004

Timecard Approval

Comment:

During our testing we noted a timecard which did not have a supervisors approval signature.

Recommendation:

In order to improve the internal controls over the payroll process, all timecards should have an approval signature by appropriate supervisory personnel.

Supporting Documentation

Comment:

During our testing we noted a credit card bill was missing the associated supporting receipts.

Recommendation:

All supporting documentation relating to credit card purchases should be submitted to the office manager so purchases can be substantiated and so that credit card use is in accordance with the Road Commissions credit card policy.

SCHOOLCRAFT COUNTY ROAD COMMISSION, MICHIGAN

COMMENTS AND RECOMMENDATIONS

September 30, 2004

Payroll and Disbursement Check Signatures

Comment:

We noted that payroll checks and accounts payable checks only require one signature.

Recommendation:

To enhance the internal controls over payroll and disbursement transactions, dual signature checks should be used which require the signature of two responsible officials.

Fidelity Bonding of Key Employees

Comment:

During our audit we noted that the Road Commission does not have any bonding of key employees.

Recommendation:

We recommend that the Road Commission Board consider bonding employees who have access to and control over financial resources.